MULTIMEDIA UNIVERSITY ®

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019 / 2020

BAC 2684–FINANCIAL STATEMENT ANALYSIS

(All Sections/Groups)

18 OCTOBER 2019
9.00 a.m. - 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **FIVE** pages (excluding cover page) with **FOUR** questions only.

2. Answer **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Write your answers and workings in the Answer Booklet provided.

QUESTION 1

Part A

Consider the following statement: *"While accrual accounting information is imperfect, ignoring it and making cash flows the basis of all analysis and business decisions is like throwing the baby out with the bath water"*

Required:

i. Define accrual accounting and provide one (1) example.

(4 marks)

ii. Explain how does accrual accounting provide superior information to cash flows?

(3 marks)

Part B

Nura Food Sdn. Bhd. is a retailer dealing in a single product. Beginning inventory at January 1st of this year is zero. The operating expenses for this same year are RM5,000. The following purchases are made this year:

	Units	Per Unit	Cost
January.....	100	RM10	RM1,000
March.....	300	11	3,300
June.....	600	12	7,200
October.....	300	14	4,200
December.....	500	15	7,500

Ending inventory at December 31st is 800 units.

Required:

i. Determine net income for this year under FIFO, LIFO and average cost inventory method. Assume sales price of RM25 per unit and ignore income taxes.

(12 marks)

ii. Discuss the effects of inventory accounting methods for financial statement analysis given the results from part (i) above.

(6 marks)

[TOTAL: 25 MARKS]

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QUESTION 2

Part A

Below are the selected ratios for three companies which operate in three different industries: Discount Retail Store, Drug Manufacturer and Utility.

Industry	A	B	C
COGS/Sales	80%	58%	n/a
R & D/Sales	0%	7%	0.1%
Advertising/Sales	Not defined	3%	0.1%
Interest/Sales	0.9%	1%	0.1%
Net Income/Sales	2.5%	10%	10%
Return on Assets	8.5%	10.6%	7.2%
Inventory Turnover	5.5	4	n/a
Accounts Receivable Turnover	100	6	9
Long-term Debt/Equity	60%	50%	92%

Required:

i. Identify which industry belongs to each of the company above.

(3 marks)

ii. Please provide two (2) reasons for each of your selections above (Please use the ratios above in providing your reasons)

(6 marks)

Part B

On January 1, Year 1, Hardy Company leases equipment from Harvey Company for an annual lease rental of RM20,000. The lease term is five years, and the lessor's interest rate implicit in the lease is 8%. The lessee's incremental borrowing rate is 8.25%. The useful life of the equipment is five years, and its estimated residual value equals its removal cost. Annuity table indicates that the present value of an annual lease rental of RM1 (at 8% rate) is RM3.993. The fair value of leased equipment equals the present value of rentals.

Required:

i. State two (2) criteria for capital lease.

(4 marks)

ii. Prepare lease amortization table for the five (5) years lease term.

(12 marks)

[TOTAL: 25 MARKS]

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QUESTION 3

Part A

Below is the financial information for Rasa Sorga Sdn. Bhd.:-

Balance Sheet as at 31st December, Year 2 and Year 1

	Year 2 (RM)	Year 1 (RM)	Absolute value of change
Cash and cash equivalents	20,000	29,000	9,000
Receivables	48,000	39,000	9,000
Inventory	54,000	60,000	6,000
Prepaid Expenses	6,000	9,000	3,000
Plant Assests	440,000	350,000	90,000
Accumulated Depreciation	(145,000)	(125,000)	20,000
Intangible Assets	51,000	58,000	7,000
Total Assets	RM474,000	RM420,000	
Accounts Payable	51,000	56,000	5,000
Accrued Expenses	18,000	14,000	4,000
Long-Term Notes Payable	30,000	0	30,000
Mortgage Payable	0	150,000	150,000
Preferred Stock	175,000	0	175,000
Common Stock	200,000	200,000	0
Total current liabilities and equity	RM474,000	RM420,000	

Income Statement for the year ended 31st December for Year 2

	Year 2 (RM)
Revenues	660,000
Cost of Sales	(396,000)
Gross Profit	264,000
Operating Expenses	(183,000)
Depreciation & Amortization	(35,000)
Gain on sale of asset	5,000
Net Income	**51,000**

Addional Information:

1. The company purchased a Truck during the year at a cost of RM30,000 that was financed fully by the manufacturer.

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2. A Truck with a cost of RM20,000 and a net book value of RM2,000 was sold during the year for RM7,000. There were no other sales of depreciable assets.
3. Dividends paid during Year 2 are RM51,000.

Required:

Prepare the cash flow statement for Year 2 using indirect method.

(10 marks)

Part B

"Prospective analysis is a central component of value investing. It relies on a sound understanding of the company's fundamentals and its economic environment. From this base, forecasts of future performance are developed that provide the basis for valuation of stock prices. Whichever investing philosophy we subscribe to, the message is clear: understand where the company's business model and strategic plan are taking it".

(Chapter 9, Prospective Analysis, K.R.Subramanyam)

Required:

i. Explain the importance of prospective analysis.

(6 marks)

ii. Explain, FIVE items of information that should be considered in projecting sales.

(9 marks)

[TOTAL: 25 MARKS]

QUESTION 4

Part A

Selected information from Austin Corporation Sdn. Bhd., for the end of Year 1 as follows:-

Items	RM
Sales for Year 1	360,000
Receivables	40,000
Inventories*	50,000
Accounts Payable^	20,000
Cost of Goods Sold (including depreciation of RM30,000)	320,000

*Beginning Inventory is RM100,000
^These relate to purchases included in cost of goods sold

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Required:

i. Estimate the company's purchases per day.
(Please use 360 days = 1 year)

(8 marks)

ii. Compute the company's net trade cycle in days.
(Please use 360 days = 1 year)

(7 marks)

Part B

Below are information on Company A and Company B:

	Company A	Company B
Current Assets	RM300,000	RM1,200,000
Current Liabilities	RM100,000	RM1,000,000
Working Capital	RM200,000	RM200,000

Required:

i. Compute current ratio for Company A and B. Compare and interpret your answers.

(4 marks)

ii. Explain why liquidity is important in analysis of financial statements. Explain its importance from the viewpoint of Equity Investors and Creditors.

(6 marks)

[TOTAL:25 MARKS]

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